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UNCLAS HARARE 000083

SIPDIS

SENSITIVE

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
USAID FOR MARJORIE COPSON

E. O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [ZI](#)

SUBJECT: How fast can an economy recede?

Sensitive but unclassified.

1. (SBU) Washington-based Zimbabwe watchers may have noted that the Economist Intelligence Unit (EIU) recently projected "only" a 9 percent decline for Zimbabwe's fledgling economy in 2003. By contrast, most local economists are predicting at least minus 12 percent and even the GOZ -- which, we presume, believes in its policies -- forecasts minus 7.2 percent. We recently asked Harare-based Guardian correspondent Andrew Meldrum, who does much of the legwork for the EIU, about this conservative outlook. He told us the EIU simply does not believe a peacetime economy, no matter how bad its stewardship, can shrink by over 10 percent year after year. In spite of its own data, the EIU believes the speed of Zimbabwe's freefall is now testing structural limits.

Comment

2. (SBU) Although there are historical parallels, Zimbabwe has become a sort of laboratory for bad macroeconomics. Even if 9 percent is conservative, the EIU still reckons that Zimbabwe will retain its standing in 2003 as the world's worst performing economy. However, the extent of recession will depend on whether the GOZ modifies its heavy-handed interventionism. If the GOZ eliminates the official exchange rate, price controls and export disincentives, the economy will perform considerably better.

Sullivan